

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Village of Franklin</u>	County Oakland
Audit Date June 30, 2005	Opinion Date September 2, 2005	Date Accountant Report Submitted To State: December 21, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State Michigan	ZIP 48034
Accountant Signature <i>Plante & Moran, PLLC</i>			

**Village of Franklin
Oakland County, Michigan**

**Financial Report
with Supplemental Information
June 30, 2005**

Village of Franklin, Michigan

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Village of Franklin, Michigan

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Independent Auditor's Report

To the Village Council
Village of Franklin, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Franklin as of and for the year ended June 30, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Franklin's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Franklin as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Village Council
Village of Franklin, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Franklin's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 2, 2005

Village of Franklin, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Village of Franklin's (the "Village") financial performance provides an overview of the Village's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the Village's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- State-shared revenue, despite further cuts, remains our third largest revenue source within the General Fund. During the Village's 2005 fiscal year, state-shared revenue was reduced by the State of Michigan by approximately 4.4 percent.
- Revenue remained fairly stagnant in governmental funds with less than a 2 percent increase. The Village was able to maintain its revenue level even with the decreased state-shared revenue mainly due to a slight increase in property tax revenue due to a slight increase in the rate of inflation, an increase in the fire millage, revenue charged to neighboring communities for police services, and benefiting from climbing interest rates. The Village's governmental expenditures rose approximately 4.7 percent from the prior year mainly due to additional public safety needs, an overall increase in health care and other insurance, and a significant increase in the required pension contribution. The Village continues to focus on expenditure controls due to two main revenue sources of the Village, property taxes and revenue sharing, being declining or at best a stagnant future source.
- The Pressure Sewer Fund had an operating loss of approximately \$175,200 for the current year. This was an additional loss of approximately 7 percent from the prior year. This was due to overall maintenance costs of the system increasing at a rate higher than the charges to customers. In addition, the fund had nonoperating income of approximately \$705,000 generated mainly from property taxes, capital charges, and net interest income. Overall, the fund recognized an increase in net assets of approximately \$529,500. This increase in net assets is approximately 1 percent less than the prior year mainly due to lower revenue from tap-in fees, increased maintenance costs, and increased interest expense.
- The Village took advantage of decreased interest rates associated with its business activity bonded debt by the defeasance of debt held at Oakland County. The debt defeased had interest rates ranging from 5.0 percent to 5.75 percent and the new debt issued had a lower interest rate range of 2.25 percent to 3.6 percent. Overall, this defeasance will save the Village's Pressure Sewer Fund approximately \$115,000 with a net present value savings of approximately \$99,000.

Village of Franklin, Michigan

Management's Discussion and Analysis (Continued)

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

Governmental Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior year (in thousands of dollars):

Summary Condensed Statement of Net Assets

	June 30			
	2005	2004	Change	Percent
Assets				
Current assets	\$ 1,673	\$ 1,662	\$ 11	0.66
Noncurrent assets	<u>6,725</u>	<u>6,998</u>	<u>(273)</u>	(3.90)
Total assets	8,398	8,660	(262)	(3.03)
Liabilities				
Current liabilities	585	480	105	21.88
Long-term liabilities	<u>5,150</u>	<u>5,390</u>	<u>(240)</u>	(4.45)
Total liabilities	<u>5,735</u>	<u>5,870</u>	<u>(135)</u>	(2.30)
Net Assets				
Invested in capital assets - Net of related debt	1,335	1,403	(68)	(4.85)
Restricted	930	829	101	12.18
Unrestricted	<u>398</u>	<u>558</u>	<u>(160)</u>	(28.67)
Total net assets	<u>\$ 2,663</u>	<u>\$ 2,790</u>	<u>\$ (127)</u>	<u>(4.55)</u>

Village of Franklin, Michigan

Management's Discussion and Analysis (Continued)

Summary Condensed Statement of Changes in Net Assets

	Year Ended June 30			
	2005	2004	Change	Percent
Revenue				
Program revenue:				
Charges for services	\$ 912	\$ 1,001	(89)	(8.89)
Operating grants and contributions	269	262	7	2.67
Capital grants and contributions	25	-	25	100.00
General revenue:				
Property taxes and related fees	1,792	1,693	99	5.85
State sources	250	221	29	13.12
Unrestricted investment earnings	33	17	16	94.12
Loss of sale of fixed asset	(7)	(2)	(5)	(250.00)
Cable franchise fees	58	50	8	16.00
Miscellaneous	17	13	4	30.77
Total revenue	3,349	3,255	94	2.89
Program Expenses				
General government	652	599	53	8.85
Public safety	1,533	1,441	92	6.38
Public works	891	867	24	2.77
Community and economic development	9	31	(22)	(70.97)
Building inspection	391	381	10	2.62
Total program expenses	3,476	3,319	157	4.73
Change in Net Assets	\$ (127)	\$ (64)	\$ (63)	98.44

The governmental net assets decreased 4.6 percent from a year ago, decreasing from approximately \$2.790 million to approximately \$2.663 million.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - decreased by approximately \$160,000 for the governmental activities. This represents a decrease of approximately 29 percent. The current level of unrestricted net assets for our governmental activities stands at \$398,000, or about 11 percent of expenditures (approximately 1.3 months of expenditures). Unrestricted net assets is the measurement of the discretionary amount that can be used to finance day-to-day operations on the government-wide statements prepared on the full accrual method of accounting, and is different than fund balances reported in the individual governmental funds, which are discussed in the following section.

Village of Franklin, Michigan

Management's Discussion and Analysis (Continued)

The decrease in net assets was mainly due to overall costs rising at approximately 4.7 percent from the prior year mainly due to additional public safety needs, increased costs with relation to health care and other insurance, and an increase in the required pension contribution from the prior year. The Village only recognized an increase in overall revenue of approximately 1.75 percent. While state-shared revenue actually decreased approximately 4.4 percent, the Village recognized a slight increase in overall revenue mainly due to an increase in property tax revenue due to inflation and an increase in the fire millage. The Village also benefited from climbing investment interest rates. The Village continues to closely monitor its spending in all areas due to the limitation of generation of increased revenue due to the main revenue sources of property taxes and revenue sharing being stagnant sources.

Business-type Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior year (in thousands of dollars):

	June 30			
	2005	2004	Change	Percent
Assets				
Current assets	\$ 2,946	\$ 2,585	\$ 361	13.97
Noncurrent assets	<u>8,171</u>	<u>8,252</u>	<u>(81)</u>	(0.98)
Total assets	11,117	10,837	280	2.58
Liabilities				
Current liabilities	465	388	77	19.85
Long-term liabilities	<u>4,667</u>	<u>4,993</u>	<u>(326)</u>	(6.53)
Total liabilities	<u>5,132</u>	<u>5,381</u>	<u>249</u>	4.63
Net Assets				
Invested in capital assets - Net of related debt	2,381	2,031	350	17.23
Restricted	222	187	35	18.72
Unrestricted	<u>3,382</u>	<u>3,238</u>	<u>144</u>	4.45
Total net assets	<u>\$ 5,985</u>	<u>\$ 5,456</u>	<u>\$ 529</u>	<u>9.70</u>

Village of Franklin, Michigan

Management's Discussion and Analysis (Continued)

	Year Ended June 30			
	2005	2004	Change	Percent
Revenue - Program revenue				
Charges for services	\$ 355	\$ 298	\$ 57	19.13
Operating expenses other than depreciation	(343)	(298)	(45)	15.10
Depreciation	(187)	(182)	(5)	2.75
Operating Loss	(175)	(182)	7	(3.85)
Property taxes and penalties and interest	568	545	23	4.22
Interest income	125	82	43	52.44
Interest expense	(244)	(216)	(28)	12.96
Capital contributions	255	426	(171)	(40.14)
Change in Net Assets	\$ 529	\$ 655	\$ (126)	(19.24)

The Village's business-type activities consist of the Pressure Sewer Fund. The Village provides sewer service to approximately 600 customers. During the year, the Village improved the system by installing approximately \$250,000 of grinder pumps.

The net assets of business-type activities increased 9.70 percent from a year ago - increasing from \$5,456,000 to \$5,985,000.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, increased by approximately \$144,000. This represents an increase of 4.45 percent. The current level of unrestricted net assets stands at \$3,382,000.

Though the Pressure Sewer Fund had an overall increase in net assets, the increase was significantly lower than the prior year's increase in net assets. The decrease in overall net income from the prior year of approximately 19 percent was due to the increase in the operational loss of approximately 4 percent from the prior year. This increased loss from operations was mainly due to overall maintenance costs of the system increasing at a rate higher than the charges to its customers. In addition, nonoperating activities had a decrease in revenue from tap-in fees from the prior year, and had increased interest expense in the current year mainly due to the cost associated with the defeasance of debt in the current year. Though the current year has increased costs associated with this defeasance, future years will benefit from large interest expense savings. Overall, the defeasance will save the Pressure Sewer Fund approximately \$115,000 with a net present savings of approximately \$99,000.

Village of Franklin, Michigan

Management's Discussion and Analysis (Continued)

The Village's Funds

Our analysis of the Village's major funds begins on page 14, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2005 include the General Fund, the Major Streets Fund, Local Streets Fund, Building Department Fund, and the Debt Service Fund.

The General Fund pays for most of the Village's governmental services. The most significant is police services, which incurred expenditures of approximately \$1,285,400 (75 percent of total expenditures) in 2005. This service is partially supported by charges for services to neighboring communities for which the Village provides police service. These charges are recorded in the General Fund and offset total police expenditures by approximately \$588,000. Total revenue within the General Fund was approximately \$1.69 million with 45 percent coming from property taxes, 13 percent from state-shared revenue, 35 percent from charges for services to neighboring communities for police services, and the remaining 7 percent coming from licenses and permits, federal grants, cable franchise fees, interest, and other miscellaneous items. Overall fund balance decreased approximately \$31,460 for the current year due to expenditures rising at a greater rate than revenue sources. The General Fund experienced large increases in police service needs, health care insurance costs, and required pension contributions.

The Major Streets Fund accounts for the repairs, maintenance, and construction of all Village major streets. This fund had a slight increase in fund balance of approximately \$21,000 in the current year, with a year-end fund balance of approximately \$368,450. Overall costs remained fairly consistent to prior year costs.

The Local Streets Fund accounts for repairs, maintenance, and construction of all Village local streets. The fund balance increased approximately \$58,600 in the current year, with a year-end fund balance of approximately \$364,000. Costs within this fund decreased from the prior year by approximately 32 percent due to having no construction in the current year, only maintenance on the local roads.

The Building Department Fund accounts for the collection of building permits and fees, and the cost of inspections. The fund had a decrease of approximately \$70,000 in the current year. This decrease included a transfer in from other funds of approximately \$6,185. The Building Department Fund had a year-end fund deficit of approximately \$(1,747). This decrease in fund balance was mainly due to building department revenue decreasing approximately \$72,000 or 18 percent from the prior year and costs increasing approximately \$10,000 or 2.6 percent mainly due to increased costs associated with building inspections. The Village is currently reviewing the adequacy of fees being charged for services provided within the Building Fund.

Village of Franklin, Michigan

Management's Discussion and Analysis (Continued)

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The fund had an increase of \$950, with a year-end fund balance of approximately \$135,400. The debt service payment of \$462,570 was almost fully funded by the debt millage, which brought in revenue of \$460,830. The fund also had interest income of \$2,690.

General Fund Budgetary Highlights

Over the course of the year, the Village amended the General Fund budget to take into account events during the year. The most significant change was the increase in the estimated police service costs by \$28,200. This was a result of longevity pay, clerical salaries, life and disability, car insurance, and police car operation expenses increasing over the prior year.

All Village departments stayed below budget except for the police department, administrator expenditure, and other miscellaneous costs. Although these categories were amended during the year to attempt to capture the estimated increased costs, the costs still exceeded the amended budget estimate due mainly to salary, longevity, and health and life insurance in the police department being over what was anticipated. In addition, capital outlay for automobiles within the police department was more than anticipated in the budget due to a contribution from the community of Bingham Farms to purchase a police vehicle. This vehicle is recorded as an expenditure and revenue within the Village of Franklin due to the Village of Franklin holding the title to the vehicle. Expenditures for administrator exceeded budget mainly as a result of salaries being more than anticipated and expenditures for other costs exceeded budget mainly as a result of contracted services and utility costs. The overall higher than anticipated expenditures lead to the General Fund decreasing its fund balance by \$31,460 in the current year.

Capital Asset and Debt Administration

At the end of 2005, the Village had approximately \$14,165,000 invested in a broad range of capital assets, including land, infrastructure, buildings, police vehicles, furniture and equipment, and the pressure sewer system.

The Village invested approximately \$43,000 in new police vehicles within the governmental fixed assets and had approximately \$305,000 of depreciation expense associated with the governmental fixed assets during the current year. The Village also invested \$250,000 in grinder pumps to enhance the pressure sewer system during the current year. These costs were fully reimbursed by special assessment revenue from the citizens that benefited from the grinder pump installation. In addition, the Pressure Sewer Fund had approximately \$187,000 of depreciation expense associated with its fixed assets.

Village of Franklin, Michigan

Management's Discussion and Analysis (Continued)

In addition, at the end of 2005, the Village had approximately \$10,571,000 of total long-term debt. Approximately \$5,513,000 is governmental debt, while approximately \$5,058,000 is related to the Pressure Sewer Enterprise Fund debt. No new debt was issued related to governmental activities. However, the Pressure Sewer Fund did issue new debt of \$1,400,000 and defeased debt of \$1,075,000 during the current year. The debt that was defeased within this pressure sewer activity was held at Oakland County and had an interest rate ranging from 5.0 percent to 5.75 percent. The newly issued debt has a lower interest rate ranging from 2.25 percent to 3.6 percent. Overall, this defeasance will save the Village approximately \$115,000 with a net present value savings of approximately \$99,000.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, and customers with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village office at 32325 Franklin Road, Franklin, MI 48025-1199.

Village of Franklin, Michigan

Statement of Net Assets June 30, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and cash investments (Note 3)	\$ 1,574,320	\$ 2,535,695	\$ 4,110,015
Restricted cash (Note 1)	-	125,126	125,126
Receivables - Net:			
Customers	-	188,562	188,562
Due from other governmental units	88,690	64,593	153,283
Other	32,731	-	32,731
Internal balances	(32,422)	32,422	-
Prepaid costs and other assets	9,364	-	9,364
Special assessments	-	730,615	730,615
Capital assets - Net (Note 4):			
Nondepreciable capital assets	211,717	-	211,717
Depreciable capital assets	6,513,351	7,439,488	13,952,839
Total assets	8,397,751	11,116,501	19,514,252
Liabilities			
Accounts payable	105,528	30,686	136,214
Accrued and other liabilities	116,400	42,170	158,570
Due to other governmental units	139	-	139
Noncurrent liabilities (Note 6):			
Due within one year	362,652	392,376	755,028
Due in more than one year	5,150,000	4,666,237	9,816,237
Total liabilities	5,734,719	5,131,469	10,866,188
Net Assets			
Invested in capital assets - Net of related debt	1,335,068	2,380,875	3,715,943
Restricted for:			
Streets and highways	732,554	-	732,554
Debt service	135,443	-	135,443
Garbage and rubbish collection	25,379	-	25,379
Waste water management	36,593	-	36,593
Sewer projects	-	222,468	222,468
Unrestricted	397,995	3,381,689	3,779,684
Total net assets	<u>\$ 2,663,032</u>	<u>\$ 5,985,032</u>	<u>\$ 8,648,064</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

Village of Franklin, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government - Governmental activities:				
General government	\$ 652,036	\$ 2,208	\$ 5,101	\$ 24,949
Public safety	1,532,954	587,969	-	-
Public works	891,088	7,206	257,730	-
Community and economic development	8,825	-	6,606	-
Building inspection	390,914	314,798	-	-
Total governmental activities	3,475,817	912,181	269,437	24,949
Business-type activities - Pressure sewer	773,842	354,891	-	254,755
Total primary government - Governmental activities	\$ 4,249,659	\$ 1,267,072	\$ 269,437	\$ 279,704
General revenues:				
Property taxes and related fees				
State sources				
Unrestricted investment earnings				
Loss on sale of capital assets				
Cable franchise fees				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (619,778)	\$ -	\$ (619,778)
(944,985)	-	(944,985)
(626,152)	-	(626,152)
(2,219)	-	(2,219)
(76,116)	-	(76,116)
(2,269,250)	-	(2,269,250)
-	(164,196)	(164,196)
(2,269,250)	(164,196)	(2,433,446)
1,791,775	568,430	2,360,205
250,074	-	250,074
33,394	125,237	158,631
(6,969)	-	(6,969)
57,479	-	57,479
16,642	-	16,642
2,142,395	693,667	2,836,062
(126,855)	529,471	402,616
2,789,887	5,455,561	8,245,448
\$ 2,663,032	\$ 5,985,032	\$ 8,648,064

Village of Franklin, Michigan

Governmental Funds Balance Sheet June 30, 2005

	General Fund	Major Streets Fund	Local Streets Fund	Building Department Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets							
Cash and investments (Note 3)	\$ 544,850	\$ 389,830	\$ 346,621	\$ 48,558	\$ 155,415	\$ 89,046	\$ 1,574,320
Receivables - Net:							
Due from other governmental units	31,216	11,355	7,567	-	-	-	50,138
Other	10,198	-	3,229	12,238	-	7,066	32,731
Due from other funds (Note 5)	34,987	-	18,550	6,185	-	-	59,722
Prepaid costs and other assets	9,364	-	-	-	-	-	9,364
Total assets	<u>\$ 630,615</u>	<u>\$ 401,185</u>	<u>\$ 375,967</u>	<u>\$ 66,981</u>	<u>\$ 155,415</u>	<u>\$ 96,112</u>	<u>\$ 1,726,275</u>
Liabilities and Fund Balances (Deficit)							
Liabilities							
Accounts payable	\$ 30,233	\$ 14,187	\$ 11,861	\$ 21,291	\$ -	\$ 27,955	\$ 105,527
Accrued and other liabilities	47,723	-	-	-	-	-	47,723
Due to other governmental units	139	-	-	-	-	-	139
Due to other funds (Note 5)	-	18,550	-	47,437	19,972	6,185	92,144
Total liabilities	78,095	32,737	11,861	68,728	19,972	34,140	245,533
Fund Balances (Deficit)							
Reserved for drug enforcement	47,055	-	-	-	-	-	47,055
Reserved for debt service	-	-	-	-	135,443	-	135,443
Unreserved, reported in:							
General Fund	505,465	-	-	-	-	-	505,465
Special Revenue Funds	-	368,448	364,106	(1,747)	-	61,972	792,779
Total fund balances (deficit)	<u>552,520</u>	<u>368,448</u>	<u>364,106</u>	<u>(1,747)</u>	<u>135,443</u>	<u>61,972</u>	<u>1,480,742</u>
Total liabilities and fund balances (deficit)	<u>\$ 630,615</u>	<u>\$ 401,185</u>	<u>\$ 375,967</u>	<u>\$ 66,981</u>	<u>\$ 155,415</u>	<u>\$ 96,112</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	6,725,068
Receivables are expected to be collected over several years, and are not available to pay for current year expenditures	38,551
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(5,390,000)
Accrued interest on long-term debt is not recorded until its due date on the fund-based statements	(68,677)
Compensated absences are not due and payable in the current period and are not reported in the funds	(122,652)
Net assets of governmental activities	<u>\$ 2,663,032</u>

Village of Franklin, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2005

	General Fund	Major Roads Fund	Local Streets Fund	Building Department Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue							
Property taxes and related fees	\$ 758,341	\$ -	\$ -	\$ -	\$ 460,828	\$ 572,606	\$ 1,791,775
Licenses and permits	1,035	-	-	314,798	-	3,960	319,793
Intergovernmental revenue:							
Federal grants	9,467	-	-	-	-	-	9,467
State sources	214,762	144,135	106,769	-	-	6,826	472,492
Charges for services	587,969	-	-	-	-	-	587,969
Cable franchise fees	57,479	-	-	-	-	-	57,479
Interest	18,321	6,247	5,399	-	2,694	733	33,394
Other	45,634	2,706	-	-	-	540	48,880
Total revenue	1,693,008	153,088	112,168	314,798	463,522	584,665	3,321,249
Expenditures							
Current:							
General government	397,867	-	-	-	-	-	397,867
Public safety	1,285,410	-	-	-	-	251,000	1,536,410
Public works	-	98,981	86,619	-	-	192,266	377,866
Building services	-	-	-	390,914	-	-	390,914
Community and economic development	6,425	-	-	-	-	-	6,425
Library	-	-	-	-	-	130,339	130,339
Debt service	-	-	-	-	462,572	-	462,572
Other	34,764	-	-	-	-	-	34,764
Total expenditures	1,724,466	98,981	86,619	390,914	462,572	573,605	3,337,157
Excess of Revenue Over (Under) Expenditures	(31,458)	54,107	25,549	(76,116)	950	11,060	(15,908)
Other Financing Sources (Uses)							
Transfers in	-	-	33,063	6,185	-	-	39,248
Transfers out	-	(33,063)	-	-	-	(6,185)	(39,248)
Total other financing sources (uses)	-	(33,063)	33,063	6,185	-	(6,185)	-
Net Change in Fund Balances	(31,458)	21,044	58,612	(69,931)	950	4,875	(15,908)
Fund Balances - Beginning of year	583,978	347,404	305,494	68,184	134,493	57,097	1,496,650
Fund Balances (Deficit) - End of year	\$ 552,520	\$ 368,448	\$ 364,106	\$ (1,747)	\$ 135,443	\$ 61,972	\$ 1,480,742

Village of Franklin, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (15,908)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are recorded as capital assets	43,094
Governmental funds allocate the cost of capital assets over their estimated useful lives as depreciation	(305,024)
Proceeds from the sale of capital assets reported as revenue in the governmental funds; the statement of activities records a gain or loss, included in general government revenue	(10,839)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	38,552
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	205,000
Change in accumulated employee sick and vacation pay, and accrued interest are recorded when earned in the statement of activities	<u>(81,730)</u>

Change in Net Assets of Governmental Activities **\$ (126,855)**

Village of Franklin, Michigan

Enterprise Fund - Pressure Sewer Statement of Net Assets June 30, 2005

Assets

Current assets:

Cash and cash equivalents	\$ 2,535,695
Restricted assets - Cash and cash equivalents	125,126
Receivables:	
Customers	188,562
Due from other governmental units	64,593
Due from other funds (Note 5)	32,422
Total current assets	2,946,398

Noncurrent assets:

Special assessments	730,615
Depreciable capital assets - Net	7,439,488
Total assets	11,116,501

Liabilities

Current liabilities:

Accounts payable	30,686
Accrued interest	42,170
Current portion of long-term debt	392,376
Total current liabilities	465,232

Noncurrent liabilities - Long-term debt - Net of current portion	4,666,237
Total liabilities	5,131,469

Net Assets

Investment in capital assets - Net of related debt	2,380,875
Restricted for improvements and operations	222,468
Unrestricted	3,381,689
Total net assets	\$ 5,985,032

Village of Franklin, Michigan

Enterprise Fund - Pressure Sewer Statement of Revenue, Expenditures, and Changes in Net Assets Year Ended June 30, 2005

Operating Revenue

Sewage disposal charges	\$ 325,575
Penalties	<u>29,316</u>
Total operating revenue	354,891

Operating Expenses

Cost of sewage treatment	174,914
General and administrative	45,991
System maintenance	46,125
Pump station maintenance	75,219
Depreciation	187,316
Other	<u>519</u>
Total operating expenses	<u>530,084</u>

Operating Loss (175,193)

Nonoperating Revenue (Expense)

Property taxes	558,216
Property taxes penalties and interest	10,214
Interest income	125,237
Interest expense	<u>(243,758)</u>
Total nonoperating income	<u>449,909</u>

Income - Before capital contributions 274,716

Capital Contributions

Net tap-in fees and grinder pump fees	245,655
County contributions	<u>9,100</u>
Total capital contributions	<u>254,755</u>

Increase in Net Assets 529,471

Net Assets - Beginning of year 5,455,561

Net Assets - End of year \$ 5,985,032

Village of Franklin, Michigan

Enterprise Funds - Pressure Sewer Statement of Cash Flows Year Ended June 30, 2005

Cash Flows from Operating Activities

Receipts from customers	\$ 315,832
Payments to suppliers	(266,124)
Other payments	<u>(53,538)</u>
Net cash used in operating activities	(3,830)

Cash Flows from Capital and Related Financing Activities

Purchase of capital assets	(250,000)
Proceeds from property tax levy	568,430
Collection of special assessments for capital purchases	144,017
Net capital contributions	254,755
Principal and interest paid on capital debt	<u>(531,213)</u>
Net cash provided by capital and related financing activities	185,989

Cash Flows from Investing Activities - Interest received on investments 125,237

Net Increase in Cash and Cash Equivalents 307,396

Cash and Cash Equivalents - Beginning of year 2,353,425

Cash and Cash Equivalents - End of year \$ 2,660,821

Balance Sheet Classification of Cash and Cash Equivalents

Cash and cash equivalents	\$ 2,535,695
Restricted cash	<u>125,126</u>
Total cash and cash equivalents	<u><u>\$ 2,660,821</u></u>

Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (175,193)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	187,316
Changes in assets and liabilities:	
Receivables	(20,387)
Other assets	(18,672)
Accounts payable	30,134
Accrued and other liabilities	<u>(7,028)</u>
Net cash used in operating activities	<u><u>\$ (3,830)</u></u>

Noncash Activity - There was no noncash activity in the current year.

The Notes to Financial Statements are an
Integral Part of this Statement.

Village of Franklin, Michigan

Fiduciary Funds Statement of Assets and Liabilities June 30, 2005

	<u>Agency Funds</u>
Assets - Cash and investments	<u>\$ 323,850</u>
Liabilities	
Accounts payable	\$ 316,651
Accrued and other liabilities	<u>7,199</u>
Total liabilities	<u>\$ 323,850</u>

Village of Franklin, Michigan

Notes to Financial Statements June 30, 2005

Note I - Summary of Significant Accounting Policies

The accounting policies of the Village of Franklin (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Franklin:

Reporting Entity

The Village of Franklin is governed by an elected seven-member council. There are no component units for which the Village is considered to be financially accountable.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the Enterprise Fund are reported as separate columns in the fund financial statements.

Village of Franklin, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the Proprietary Fund and Fiduciary Fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes, licenses, and interest are susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village reports the following major governmental funds:

- The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Streets Fund accounts for the construction, maintenance, and repairs of all streets classified as major roads within the Village. Financing is provided primarily by state-shared gas and weight taxes and local contributions. The fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951, as amended.

Village of Franklin, Michigan

Notes to Financial Statements June 30, 2005

Note I - Summary of Significant Accounting Policies (Continued)

- The Local Streets Fund accounts for the construction, maintenance, and repairs of all streets classified as local roads within the Village. Financing is provided primarily by state-shared gas and weight taxes and local contributions. The fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951, as amended.
- The Building Department Fund is a Special Revenue Fund used to account for the collection of building permits and fees and the costs of inspections.
- The Debt Service Fund accounts for the accumulation of financial resources for the payment of principal and interest on the Village's general obligation debt. The Village annually levies ad valorem taxes restricted for the retirement of general obligation bonds. This fund reports all ad valorem taxes collected.

The Village reports the following major proprietary fund:

- The Pressure Sewer Fund accounts for the operation, maintenance, and distribution of the sewage systems administered by Oakland County.

Additionally, the Village reports the following fund type:

- The Agency Fund accounts for assets held by the Village in a trustee capacity. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement or results of operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's sewer function and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Village of Franklin, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Properties are assessed as of December 31 of each year. The related property taxes are levied on each July 1 on the taxable valuation of the property as of the preceding December 31. Taxes are considered delinquent on September 1, at which time penalties and interest are assessed.

The 2004 taxable valuation of the Village totaled \$260,678,282, and is used for the July 1, 2004 tax bills; this resulted in property tax revenue as follows:

<u>Purpose</u>	<u>Millage</u>	<u>Levy</u>
General operations	2.8000	\$ 729,899
Fire	0.9866	257,185
Rubbish	0.7100	185,082
Library	0.5000	130,339
Pressure sewer	2.1414	558,216
Debt service:		
Road and drain	1.5276	\$ 398,212
Police	0.2402	62,615
	<u>1.7678</u>	<u>460,827</u>
Total property taxes	<u>8.9058</u>	<u>\$ 2,321,548</u>

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". All trade and property tax receivables are considered to be fully collectible.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Village of Franklin, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets - Certain revenues of the enterprise funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and improvements and replacement of the water system. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings	10-50 years
Infrastructure (excludes water mains and sewers)	25 years
Vehicles	5 years
Furniture and equipment	5-20 years
Pressure sewer system	40-50 years

Compensated Absences (Vacation and Sick Leave) - It is the Village's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or employees terminate).

Village of Franklin, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Village oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. The activity related to construction code fees is recorded in a separate fund, the Building Permit Fund.

Village of Franklin, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Village has designated various banks for the deposit of Village funds. The treasurer keeps a list of approved banks. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds, securities, and other obligations of the United States in which principal and interest are fully guaranteed, certificates of deposit of a bank which is a member of the FDIC or a credit union which is insured by the National Credit Union Administration, commercial paper rated within the two highest classifications by not less than two standard rating services and which matures not more than 270 days after date of purchase (no more than 50 percent of the portfolio may be invested in commercial paper), commercial paper rated within the two highest classifications of United States government or federal agency obligation repurchase agreements, bankers' acceptances of United States banks, obligations of the State of Michigan that at the time of purchase are rated as investment grade by not less than standard rating service, mutual funds registered under the Investment Company Act of 1940, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools organized under the Surplus Funds Investment Pool Act or the Local Government Investment Pool Act, and other investments which are authorized for investment by the State Treasurer; repurchase agreements shall be negotiated only with dealers of financial institutions with whom the Village has negotiated a master repurchase agreement. Repurchase agreements must be signed by the village president, the village clerk, and the bank or dealer. The treasurer is prohibited from investing in derivatives, derivative-type instruments, or reverse repurchase agreements that may be allowed under state statute. The Village's deposits and investment policies are in accordance with statutory authority.

Village of Franklin, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

The Village's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At year end, the Village had \$4,131,542 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village does not have a policy for custodial credit risk. At year end, the Village had no investment securities that were uninsured and unregistered, held by the counterparty, or by its trust department or agent but not in the Village's name.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Village's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the Village was invested only in bank investment pools that are 2a-7 and money market accounts.

Village of Franklin, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Village has an investment policy that further limits its investment choices as detailed above. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Sweep account	\$ 982,137	AI	Moody's

Note 4 - Capital Assets

Capital asset activity of the Village's governmental and business-type activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Governmental Activities				
Capital assets not being depreciated - Land	\$ 211,717	\$ -	\$ -	\$ 211,717
Capital assets being depreciated:				
Buildings	969,859	-	-	969,859
Infrastructure (excludes sewers)	6,132,045	-	-	6,132,045
Vehicles	131,275	43,094	(21,091)	153,278
Furniture and equipment	304,538	-	-	304,538
Subtotal	7,537,717	43,094	(21,091)	7,559,720
Accumulated depreciation:				
Buildings	(57,802)	(22,974)	-	(80,776)
Infrastructure (excludes sewers)	(442,492)	(236,319)	-	(678,811)
Vehicles	(70,815)	(26,877)	10,254	(87,438)
Furniture and equipment	(180,490)	(18,854)	-	(199,344)
Subtotal	(751,599)	(305,024)	10,254	(1,046,369)
Net capital assets being depreciated	6,786,118	(261,930)	(10,837)	6,513,351
Net capital assets	\$ 6,997,835	\$ (261,930)	\$ (10,837)	\$ 6,725,068

Village of Franklin, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Capital assets being depreciated - Pressure sewer system	\$ 8,839,479	\$ 250,000	\$ -	\$ 9,089,479
Accumulated depreciation - Pressure sewer system	<u>1,462,675</u>	<u>187,316</u>	<u>-</u>	<u>1,649,991</u>
Net capital assets	<u>\$ 7,376,804</u>	<u>\$ 62,684</u>	<u>\$ -</u>	<u>\$ 7,439,488</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 9,457
Public safety	59,248
Public works	<u>236,319</u>

Total governmental activities \$ 305,024

Business-type activities - Water and Sewer Fund \$ 187,316

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances in the fund statements is as follows;

Receivable Fund	Payable Fund	Amount
General Fund	Building Fund	\$ 34,987
Local Road Fund	Major Roads Fund	18,550
Building Permit Fund	Fire Fund	<u>6,185</u>
	Total governmental funds	59,722
Pressure Sewer Fund	Building Fund	12,450
Pressure Sewer Fund	Debt Service Fund	<u>19,972</u>
	Total business-type funds	<u>32,422</u>
	Total	<u>\$ 92,144</u>

Village of Franklin, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
Major Roads Fund	Local Streets Fund	\$ 33,063
Fire Fund	Building Permit Fund	6,185

The Major Roads Fund transferred monies to the Local Streets Fund, where the funds were then spent, which is allowable under Act 51.

The Fire Fund transferred monies to the Building Department Fund since certain Building Department Fund activities relate to fire prevention.

Village of Franklin, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Long-term Debt

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. County contractual agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Village is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance July 1, 2004	Additions	Reductions	Ending Balance June 30, 2005	Due Within One Year
Governmental activities:							
General obligation Unlimited Tax Bonds							
1999 Road & Drainage Improvement bond	4.2%-5.1%	\$75,000-\$180,000	\$ 1,355,000	\$ -	\$ (75,000)	\$ 1,280,000	\$ 85,000
Amount of issue - \$1,600,000							
Maturing through 2014							
1999 Police Station Bond	5.0%-5.75%	\$20,000-\$90,000	785,000	-	(20,000)	765,000	25,000
Amount of issue - \$850,000							
Maturing through 2019							
2001 Local Road Improvements	4.25%-4.40%	\$55,000-\$275,000	1,800,000	-	(55,000)	1,745,000	70,000
Amount of issue - \$2,000,000							
Maturing through 2015							
2002 Local Road Improvements	2.00%-4.75%	\$55,000-\$350,000	1,655,000	-	(55,000)	1,600,000	60,000
Amount of issue - \$1,700,000							
Maturing through 2017							
Total bonded debt			5,595,000	-	(205,000)	5,390,000	240,000
Other long-term obligation - Employee compensated absences							
			39,000	122,652	(39,000)	122,652	122,652
Total governmental activities			5,634,000	122,652	(244,000)	5,512,652	362,652

Village of Franklin, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance July 1, 2004	Additions	Reductions	Ending Balance June 30, 2005	Due Within One Year
Business-type activities - Country contract obligations:							
Evergreen-Farmington Sewage Disposal* Amount of issue - \$1,000,000 Maturing through 2010	3.50%-3.70%	\$2,455-\$3,316	\$ 16,067	\$ -	\$ (2,454)	\$ 13,613	\$ 2,376
2003 General Obligation Bonds Amount of issue - \$2,950,000 Maturing through 2013	2.0%-4.0%	\$2,455-\$3,316	2,740,000	-	(235,000)	2,505,000	255,000
1996 General Obligation Bonds* Amount of issue - \$2,950,000 Maturing through 2015	5.0%-5.75%	\$70,000-\$150,000	1,140,000	-	(1,140,000)	-	-
1999 General Obligation Bonds Amount of issue - \$1,500,000 Maturing through 2017	4.1%-4.7%	\$50,000-\$250,000	1,450,000	-	(50,000)	1,400,000	50,000
2005 General Obligation Bonds Amount of issue - \$1,140,000 Maturing through 2015	2.25%-3.6%	\$85,000 - \$140,000	-	1,140,000	-	1,140,000	85,000
Total business-type activities			5,346,067	1,140,000	(1,427,454)	5,058,613	392,376
Total business-type and governmental activities			\$ 10,980,067	\$ 1,262,652	\$ (1,671,454)	\$ 10,571,265	\$ 755,028

* Defeased debt - See disclosure below

Annual debt service requirements to maturity for the above obligations (excluding employee benefits) are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 240,000	\$ 246,822	\$ 486,822	\$ 392,376	\$ 195,365	\$ 587,741
2007	270,000	236,139	506,139	377,297	184,360	561,657
2008	300,000	223,803	523,803	392,653	172,226	564,879
2009	325,000	209,852	534,852	397,970	158,551	556,521
2010	360,000	194,337	554,337	423,316	143,376	566,692
2011-2015	2,435,000	668,371	3,103,371	2,295,001	430,016	2,725,017
2016-2020	1,460,000	133,470	1,593,470	780,000	53,862	833,862
Total	\$ 5,390,000	\$ 1,912,794	\$ 7,302,794	\$ 5,058,613	\$ 1,337,756	\$ 6,396,369

Village of Franklin, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Long-term Debt (Continued)

Defeased Debt

In January 2003, the Village defeased a portion of the outstanding Evergreen-Farmington Sewage Disposal bonds. The portion defeased was \$2,850,000. The proceeds of new bonds were placed in an irrevocable trust to provide for all future debt service payments on this old portion of the bonds. In March 2003, the escrow agent paid \$2,907,000 (including a call premium of \$57,000) to retire the outstanding \$2,850,000 Evergreen-Farmington Sewage Disposal bonds. The remaining \$5,437 held by the escrow agent was transferred to the Debt Service Fund to cover other incidental issuance costs.

During the current year, the Village issued \$1,140,000 of Oakland County Sewage Disposal System Refunding General Obligation Bonds with an interest rate ranging from 2.25 percent to 3.6 percent. The proceeds of these bonds were used to advance refund \$1,075,000 of the outstanding 1999 Oakland County Sewage Disposal System General Obligation Bonds with an interest rate ranging from 5.0 percent to 5.75 percent. Of the \$1,140,774 proceeds, \$1,099,561 was deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds, \$40,439 was recorded as a cost of defeasance, and \$774 was applied against interest expense within the Pressure Sewer Fund. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the business-type activities debt in the statement of net assets. The advance refunding reduced total debt service payments over the next 10 years by approximately \$115,000, which represents an economic gain of approximately \$99,000. At June 30, 2005, \$1,075,000 of bonds outstanding are considered defeased.

Note 7 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for health, dental, and life claims. The Village participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss, torts, and errors and omissions, and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

Village of Franklin, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Risk Management (Continued)

The Michigan Municipal Risk Management Authority (the "Authority") operates as a claims-servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Village. The Authority assists the Village in estimating claims for additional liabilities that may be paid beyond the balance sheet date. It is estimated that any such claims are insignificant for each of the last two years. Therefore, no liability has been recorded.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

Note 8 - Other Postemployment Benefits

The Village provides health care benefits to all full-time employees (and their spouses) who retire under the Michigan Fraternal Order of Police union contract. The coverage will be the same coverage the employee has at the time of retirement with the premium to be paid 100 percent by the Village. Should the employee accept coverage from another source, the coverage will cease. However, if the alternate source ceases, the retiree will be reinstated under the Village coverage, which will be paid for at the above rate.

Should the employee predecease his/her spouse, the surviving spouse will continue to receive the same benefits. This benefit will cease in the event that he/she remarries, gains employment with coverage, or receives coverage from any other source.

All retirees and their spouses must make application for, and enroll in, Medicare coverage. The Village-paid health insurance will remain in effect until each of the retirees and/or their spouses reach the eligibility age of Medicare. The Village's obligation for health care coverage for the retiree and his/her spouse ends when the retiree and his/her spouse are eligible for Medicare.

The Village's cost of retiree health care benefits is recognized as an expense in the year health care benefits apply. No retiree health care costs were incurred by the Village for the year ended June 30, 2005.

Village of Franklin, Michigan

Notes to Financial Statements June 30, 2005

Note 8 - Other Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

The Village has already started an evaluation project on how it will react to this new requirement.

Note 9 - Pension Plans

Defined Contribution Plan

The Village provides pension benefits to its administrator through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by negotiation with the Village administrator, the Village contributes 8 percent of employees' gross earnings and employees contribute up to 10 percent of earnings.

In accordance with these requirements, the Village contributed \$6,036 during the current year and employees contributed \$3,773.

Employee Retirement and Benefit System

Plan Description - The Village participates in the Michigan Municipal Employees' Retirement System (the "System"), an agent multiple-employer defined benefit pension plan that covers certain general and police employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the System for these employees was established by negotiation with the Village's competitive bargaining units. The Village has assumed the responsibility to contribute an annual amount as determined by the actuary on behalf of general and police employees.

Village of Franklin, Michigan

Notes to Financial Statements June 30, 2005

Note 9 - Pension Plans (Continued)

Annual Pension Cost - For the year ended June 30, 2005, the Village's annual pension cost was \$65,984. The Village contributed 100 percent of the annual pension cost as determined through an actuarial valuation as of December 31, 2002, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, and (b) projected salary increases of 0 percent to 8.4 percent per year. Item (b) includes an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Trend information for the plan is as follows:

Three-year Trend Information

	Fiscal Year Ended June 30		
	2003	2004	2005
Annual pension costs (APC)	\$ 30,933	\$ 47,077	\$ 65,984
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2002	2003	2004
Actuarial value of assets	\$ 1,701,187	\$ 1,888,046	\$ 2,081,672
Actuarial accrued liability (AAL) (entry age)	\$ 2,029,277	\$ 2,412,919	\$ 2,587,881
Unfunded AAL (UAAL)	\$ 328,090	\$ 524,873	\$ 506,209
Funded ratio	83.83%	78.25%	80.44%
Covered payroll	\$ 756,417	\$ 824,312	\$ 818,975
UAAL as a percentage of covered payroll	43.37%	63.67%	61.81%

Village of Franklin, Michigan

Notes to Financial Statements June 30, 2005

Note 10 - Personal Property Tax Multipliers

In November 1999, the State Tax Commission approved revised personal property tax tables for utilities. The revised tables affected taxes collected from 1997 to present due to local units of government continuing to use the personal property tax tables in effect prior to 1999. The issue was the subject of a lawsuit brought by several units of government against the State Tax Commission, challenging the constitutionality of the new utility personal property tax tables. In April 2002, the revised tables were upheld by the court.

During 2003, the tax tables were again upheld on appeal; however, the parties involved in the cases are reported to be very near to a settlement. The Village anticipates that the settlement will result in an immaterial amount (if any) that may be refunded to the utility companies. Pending the final resolution of this issue, no amounts have been provided.

Required Supplemental Information

Village of Franklin, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
Revenues				
Property taxes	\$ 762,999	\$ 762,999	\$ 758,341	\$ (4,658)
Locally raised revenue	534,586	523,898	556,504	32,606
State revenue sharing	200,000	200,000	211,522	11,522
Federal sources	9,000	11,500	9,467	(2,033)
Total revenues	1,506,585	1,498,397	1,535,834	37,437
Expenditures				
Village council	80,375	89,375	69,492	19,883
Elections	-	1,740	1,741	(1)
Village council	40,000	40,000	39,182	818
Clerk	83,080	78,780	76,118	2,662
Police department with SAD credit	960,032	988,232	1,048,821	(60,589)
Administrator expenditure	217,200	219,800	246,556	(26,756)
Contributions	55,600	51,600	50,606	994
Other	31,750	28,750	34,776	(6,026)
Total expenditures	1,468,037	1,498,277	1,567,292	(69,015)
Net Change in Fund Balance	38,548	120	(31,458)	(31,578)
Fund Balance - Beginning of year	583,978	583,978	583,978	-
Fund Balance - End of year	<u>\$ 622,526</u>	<u>\$ 584,098</u>	<u>\$ 552,520</u>	<u>\$ (31,578)</u>

Village of Franklin, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
Revenues				
State source	\$ 128,204	\$ 134,204	\$ 144,135	\$ 9,931
Interest income	5,000	5,000	6,247	1,247
Other	600	2,600	2,706	106
Total revenues	133,804	141,804	153,088	11,284
Expenditures				
Maintenance	85,500	88,500	82,293	6,207
Improvements	15,000	16,000	14,065	1,935
Other	5,600	5,600	2,623	2,977
Transfers out	-	33,000	33,063	(63)
Total expenditures	106,100	143,100	132,044	11,056
Net Change in Fund Balance	27,704	(1,296)	21,044	22,340
Fund Balance - Beginning of year	347,404	347,404	347,404	-
Fund Balance - End of year	<u>\$ 375,108</u>	<u>\$ 346,108</u>	<u>\$ 368,448</u>	<u>\$ 22,340</u>

Village of Franklin, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Local Streets Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
Revenues				
State source	\$ 85,150	\$ 85,150	\$ 96,021	\$ 10,871
Metro Authority	7,500	7,500	10,748	3,248
Interest income	8,350	8,350	5,399	(2,951)
Other	-	10,000	9,950	(50)
Transfers in	-	33,000	33,063	63
Total revenues	101,000	144,000	155,181	11,181
Expenditures - Operation and maintenance	102,000	102,000	96,569	5,431
Net Change in Fund Balance	(1,000)	42,000	58,612	16,612
Fund Balance - Beginning of year	305,494	305,494	305,494	-
Fund Balance - End of year	<u>\$ 304,494</u>	<u>\$ 347,494</u>	<u>\$ 364,106</u>	<u>\$ 16,612</u>

Village of Franklin, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Building Department Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
Revenues				
Building department income	\$ 362,875	\$ 345,875	\$ 314,798	\$ (31,077)
Transfers in	-	-	6,185	6,185
Total revenues	362,875	345,875	320,983	(24,892)
Expenditures - Building department expense	362,875	385,375	390,914	(5,539)
Net Change in Fund Balance	-	(39,500)	(69,931)	(30,431)
Fund Balance - Beginning of year	68,184	68,184	68,184	-
Fund Balance - End of year	<u>\$ 68,184</u>	<u>\$ 28,684</u>	<u>\$ (1,747)</u>	<u>\$ (30,431)</u>

Village of Franklin, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress Public Safety Officers' Retirement System

Note - Budgetary Information

Budgetary Information - The annual budget is prepared by the Village management and adopted by the Village Council; subsequent amendments are approved by the Village Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget is submitted to the Village Council on or before the first Monday of May. During the next week, the Village Council reviews the budget and considers any changes. After a public hearing, the final budget is adopted no later than the third Monday in May.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

Operating transfers have been included in the revenue and expenditures categories, rather than as "other financing sources (uses)."

Reimbursement for costs from other funds have been included in the revenue category rather than being netted with the related expenditure.

Charges for police services to neighboring communities have been netted with the police expenditures rather than being recognized as revenue for charges for services.

The budget document presents information by fund, function, department, and line items. The level of budgetary control adopted by the Village Council is at the department level. If any department exceeds budget appropriations, the Village Council may, by resolution, amend the department's appropriation.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Village of Franklin, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress Public Safety Officers' Retirement System

Note - Budgetary Information (Continued)

Following is a reconciliation of the budget statement of the General Fund and other major funds to the operating statement:

	Budget Statement	Operating Transfers	Reimbursement from Other Funds	Charges for Police Services to Other Communities	Operating Statement
General Fund - Total revenue	\$ 1,535,834	\$ -	\$ (72,794)	\$ 229,968	\$ 1,693,008
General Fund - Total expenditures	1,567,292	-	(72,794)	229,968	1,724,466
Major Roads Fund - Total revenue	153,088	-	-	-	153,088
Major Roads Fund - Total expenditures	132,044	(33,063)	-	-	98,981
Local Streets Fund - Total revenue	155,181	(33,063)	(9,950)	-	112,168
Local Streets Fund - Total expenditures	96,569	-	(9,950)	-	86,619

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Village of Franklin incurred expenditures that were significantly in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund - Police department with SAD credit	\$ 988,232	\$ 1,048,821
General Fund - Administrator expenditure	219,800	246,556
General Fund - Other	28,750	34,776
Building Department Fund	385,375	390,914

Expenditures for the General Fund police department net of SAD credit exceeded budget mainly as a result of salary, health, and life insurance in the current year being over what was anticipated. In addition, capital outlay for automobiles was more than anticipated in the budget due to a contribution from the community of Bingham Farms to purchase a police vehicle. This vehicle is recorded as an expenditure and revenue within the Village of Franklin due to the Village of Franklin holding the title to the vehicle. General Fund expenditures for administrator exceeded budget mainly as a result of salaries being more than anticipated. Expenditures for General Fund - other exceeded budget mainly as a result of contracted services and utility expenditures being greater than anticipated. Building Department Fund exceeded budget mainly due to the cost of building inspections being greater than anticipated.

Fund Deficits - The Building Department Fund has a fund deficit at June 30, 2005 that will be funded through a transfer of monies from the General Fund in future years.

Other Supplemental Information

Village of Franklin, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2005

	Fire	Library	Garbage and Rubbish Collection	Waste Water Management	Total Nonmajor Governmental Funds
Assets					
Cash and investments	\$ 6,185	\$ -	\$ 51,359	\$ 31,502	\$ 89,046
Receivables - Customers	-	-	-	7,066	7,066
Total assets	<u>\$ 6,185</u>	<u>\$ -</u>	<u>\$ 51,359</u>	<u>\$ 38,568</u>	<u>\$ 96,112</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 25,980	\$ 1,975	\$ 27,955
Due to other funds (Note 5)	6,185	-	-	-	6,185
Total liabilities	6,185	-	25,980	1,975	34,140
Fund Balances - Unreserved - Undesignated	-	-	25,379	36,593	61,972
Total liabilities and fund balances	<u>\$ 6,185</u>	<u>\$ -</u>	<u>\$ 51,359</u>	<u>\$ 38,568</u>	<u>\$ 96,112</u>

Village of Franklin, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2005

	Fire	Library	Garbage and Rubbish Collection	Waste Water Management	Total Nonmajor Governmental Funds
Revenue					
Property taxes	\$ 257,185	\$ 130,339	\$ 185,082	\$ -	\$ 572,606
Licenses and permits	-	-	-	3,960	3,960
Intergovernmental revenue - State sources	-	-	-	6,826	6,826
Interest income	-	-	457	276	733
Other	-	-	-	540	540
Total revenue	257,185	130,339	185,539	11,602	584,665
Expenditures					
Public safety	251,000	-	-	-	251,000
Public work	-	-	174,918	17,348	192,266
Library	-	130,339	-	-	130,339
Total expenditures	251,000	130,339	174,918	17,348	573,605
Excess of Revenue Over (Under) Expenditures	6,185	-	10,621	(5,746)	11,060
Other Financing Uses - Transfers out	(6,185)	-	-	-	(6,185)
Net Change in Fund Balances	-	-	10,621	(5,746)	4,875
Fund Balances - Beginning of year	-	-	14,758	42,339	57,097
Fund Balances - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,379</u>	<u>\$ 36,593</u>	<u>\$ 61,972</u>

September 2, 2005

Village Council
Village of Franklin
32325 Franklin Road
Franklin, Michigan 48025-1199

Dear Council Members:

We recently completed our audit of the basic financial statements of the Village of Franklin for the year ended June 30, 2005. As a result of our audit, we have the following comments and recommendations for your review and consideration.

FINANCIAL RESULTS

For the year ended June 30, 2005, the Village of Franklin's General Fund fund balance decreased approximately \$31,500. While overall revenue only increased approximately \$59,000 (3.5%) from 2004 to 2005, General Fund expenditures increased approximately \$87,000 (5.3%) from 2004 to 2005.

The Village was able to maintain its revenue near 2004 levels even with State source revenue decreasing another approximate 4.0% from 2004 levels, mainly due to property taxes increasing at approximately 5.4 % from 2004 levels, an increase in the amount received from Cable Franchise fees, an increase in investment earnings from 2004, and a contractual payment from the Village of Bingham Farms for police services to purchase a police vehicle.

The Village experienced increases in expenditures from 2004 to 2005 mainly due to an increase in police service needs which required increases in salary and an increase in capital outlay, overall health care and other insurance costs increase, and increase in the required pension contributions.

Overall, police services, which incurred expenditures of approximately \$1,285,400 in 2005 makes up 75% of the General Fund's total expenditures. The public safety service is partially supported by charges for services to neighboring communities for which the Village provides police service. These charges are recorded in revenue and offset total police expenditures by approximately \$566,000. The increased costs from prior year were also greater than the anticipated budget amount for 2005. Therefore, actual expenditures exceeded the amended budget within the Police department, Administrator department, and the other costs department.

The stewardship, compliance, and accountability note in the required supplemental information of the financial statements has a comparison of actual results to budgeted amounts. These variances are technically instances of noncompliance with the State of Michigan Budget Act.

FINANCIAL RESULTS (CONTINUED)

At June 30, 2005, the General Fund fund balance was \$552,520. This represents about 32% of annual expenditures or 3.8 months worth of expenditures. This is above average for most communities and exceeds the commonly cited rule of thumb that a minimum of 10 percent of the annual budgeted expenditures be maintained in the fund balance. As the Village looks to the future, it can expect a continuation of financial pressures, as health and other insurance costs continue to rise and state shared revenue remains weak.

We encourage the Village to continue its financial planning (from both an operational and capital perspective) over a multi-year period. The Village should continue to review its long range financial plans through the use of a formally documented five year plan model in order to ensure continued financial viability over the long-run in this uncertain municipal environment.

RETIREE HEALTH CARE FUNDING

The Governmental Accounting Standards Board (GASB) has recently released Statement Number 45, *Accounting and Reporting by Employers for Post employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

However, the new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government wide statement of net assets. We anticipate that this will result in a significant pressure to fund the actuarially recommended contribution on an annual basis.

This Statement will be effective for the Village's 2010 fiscal year. The requirement for a valuation allows for an internal valuation to be performed (without the need to hire an actuary) if you have less than 100 total participants (defined as the sum of retirees currently receiving benefits, plus terminated employees who are eligible to receive in the future, plus current employees for which you have offered retiree health care).

In its exposure draft, the GASB had developed an Excel spreadsheet for use by plans with under 100 participants. Unfortunately, when the final statement was issued the worksheet was not revised to reflect changes made before the final issuance of the Statement. Our firm is updating that Excel spreadsheet. Your Village manager has already expressed his desire to obtain that work aid when completed in order to facilitate his planning.

If you do hire a professional actuary, we remind you that it generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the 2010 budget.

CONDITION OF ACCOUNTING RECORDS AND INTERNAL CONTROLS

In planning and performing our audit of the financial statements of the Village of Franklin for the year ended June 30, 2005, we considered the Village's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted matters involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Since we have not performed the Village's audit in recent years, we do not have a baseline for comparison. We are well aware that there was a partial year vacancy in a key financial position, and that the person may have been underperforming even prior to her formal separation. As a result, this year may be atypical of the Village's normal system. Nonetheless, we have an obligation to call them to the attention of the Village Council for its consideration.

Segregation of accounting duties is a fundamental control activity that separates the duties of authorization, recordkeeping, and custody of assets. Incompatible functions place a person in the position to both perpetrate and conceal errors or fraud in the normal course of his or her duties.

Although the Village's procedures have incorporated some compensating controls, during the year under audit, we noticed that there was not strict adherence to the Village's policies. This may be due to the vacancy during part of the year and the related underperformance of the individual staff member who previously occupied the position and would have provided some of the compensating controls. Specific tasks that were performed by the Village Clerk during our audit testing due to the Village being short staffed included:

- Collection of cash receipts at the counter if necessary
- Recording journal entries to the general ledger
- Performing bank reconciliations
- Ability to make bank wire transfers
- Preparation of bank deposit slips

For the year ended June 30, 2005, because of the deviation from the Village's procedures, we consider this item to be a reportable condition.

In addition, the process of reconciling the Village's interfunds during the current year must also be reported as a reportable condition. The Village has several funds that are used to record the many activities that the Village is involved in (for example, the General Fund, the Major and Local Streets Funds, the Pressure Sewer Fund, Building Department Fund, Fire Fund, Tax Collection Fund, etc.). Through the course of normal operations, "interfund" receivables and payables are created between the various funds. Due to the interfunds being unreconciled at year end and the Village having to work to reconcile them within an immaterial amount, we believe this to be a significant deficiency in the design or operation of the internal control structure and it could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial

CONDITION OF ACCOUNTING RECORDS AND INTERNAL CONTROLS (CONTINUED)

statements. We would suggest that the Village reconcile and potentially settle the amount of receivables and payables between funds on a monthly basis.

Lastly, the process of reconciling the Village's cash and investment account is an area of concern. It was necessary for us to provide substantial assistance as of June 30 in order for the Village's staff to get the reconciliations within an acceptable variance. Despite our assistance with the reconciliations, there remained some minor unreconciled differences between the bank balance and the general ledger balance. In order to maintain proper control over the cash accounts, the monthly bank reconciliation process should include identifying and following up on differences between the bank reconciliation balance and the general ledger balance. Any adjustments identified should be posted on a monthly basis. We further recommend that the reconciliations be initialed and dated after completion, to document the timeliness, as well as document ownership or responsibility for the work. When the treasurer reviews the bank reconciliation, he should sign and date as well. These copies of the reviewed bank reconciliations should be maintained within the Village's records on a monthly basis.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe that the reportable conditions noted above are material weaknesses.

Additional Internal Control Considerations

Designing and maintaining a sound system of internal controls over assets, as well as fraud prevention and detection, are on the forefront in today's accounting environment. As part of our audit of the Village's 2005 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with members of the Village Council, administration, and other employees throughout the Village; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures. Therefore, most of the comments noted below are a result of the additional procedures applied through the implementation and follow up of SAS 99.

Pressure Sewer Fund Reconciliation - The Village should consider recording the operational activity of the Pressure Sewer Fund maintained at the County on a quarterly basis. The County provides quarterly statements to the Village which could be summarized and recorded within the Village's Pressure Sewer Fund. In addition, all capital improvement costs paid to the County and all debt related items including defeasance of debt, issuance of debt, and principal and interest payments tracked by the County could be recorded at the time of occurrence within the Village of Franklin's Pressure Sewer Fund. These steps taken throughout the year would ensure timely and accurate financial reporting of this fund throughout the year.

Tax Account Fund Reconciliation - With the current General Fund loss situation, it makes it even more important for the Village to make an effort to reconcile the tax collections owed from the Tax Collection Fund to the other funds within the Village. This may result in the identification of accounting issues that could allow the General Fund and other funds additional cash and it will serve to ensure that all amounts within the fiduciary accounts are properly labeled as to whom the monies are owed during the year.

Interest Allocation – As part of the bank reconciliation process, the Village should ensure that interest earnings on cash and investment is recorded and allocated to the correct fund on a monthly basis.

Formal Contract for Police Services – The Village should consider formalizing the contracts for providing police services to its neighboring communities. With the continual increase in costs within the Police Department due to rising health insurance, longevity pay increases, and increases in required pension contributions, this would serve to ensure that the full costs of providing the service are fully captured.

Reconciliation of employees vacation and sick bank – The Village should consider reconciling each employee's vacation and sick bank maintained at the Village with the ADP payroll usage reported in each pay period to ensure employee's records are up to date and all used time is available.

INFORMATIONAL ITEMS

STATE SHARED REVENUE

State shared revenue accounts for approximately 13% of the Village's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contained a provision to not pay counties statutory revenue sharing. Instead, beginning in 2005, the counties will change their property tax levy date for their operating millage from December to July. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. In February of 2005, the Governor's Executive order indicated that no further cuts to revenue sharing would take place for the State's fiscal year 2004/2005.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$773 million shortfall exists for the State's 2005/2006 fiscal year budget. Also, during February 2005, the Governor announced that revenue sharing is budgeted at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. However, as part of recent budget negotiations on the State's

STATE SHARED REVENUE (CONTINUED)

2005/2006 budget, another reduction to state shared revenue has been proposed by the Senate.

Negotiations between both branches of the Michigan Legislature and the Governor are likely to continue through the summer and not conclude until the fall with unknown results. Accordingly, we continue to urge the Village to be very conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable and the threat to the elimination of statutory revenue sharing remains.

The following table details actual state shared revenue for the Village since 2001 in comparison to state shared revenue if the revenue payments would have increased at the rate of inflation. In addition, the table details the cumulative revenue lost by the Village as a result of not receiving state shared revenue payments consistent with annual increases in inflation since 2001.

State's Fiscal Year Ending September 30	Actual Revenue Sharing	Revenue Sharing if Village Received Inflationary Increases	Cumulative Lost Revenue Sharing Payments
2001	\$253,109	\$253,109	-
2002	\$248,530	\$261,208	\$12,678
2003	\$240,216	\$265,126	\$37,588
2004	\$215,895	\$271,224	\$92,917
2005	\$213,542	\$277,462	\$156,837

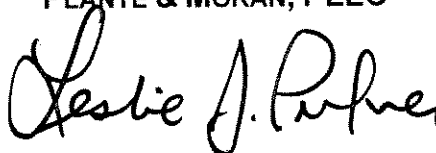
We will continue to update the Village as developments occur.

CLOSING

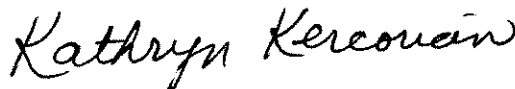
We would like to thank you and your staff for the courtesy and cooperation extended to us during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Leslie J. Pulver



Kathryn J. Kercorian